

MARTIN PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required and supplementary and additional information)
YEAR ENDED JUNE 30, 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Martin Public Schools
Martin, Michigan

August 31, 2004

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Martin Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools as of June 30, 2004 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004, on our consideration of Martin Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Education
Martin Public Schools

August 31, 2004

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 24, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Martin Public Schools' basic financial statements. The additional information on pages 26 to 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the 2003-04 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement #34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments. This section of the Martin Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2004. In future years, comparative information will be available.

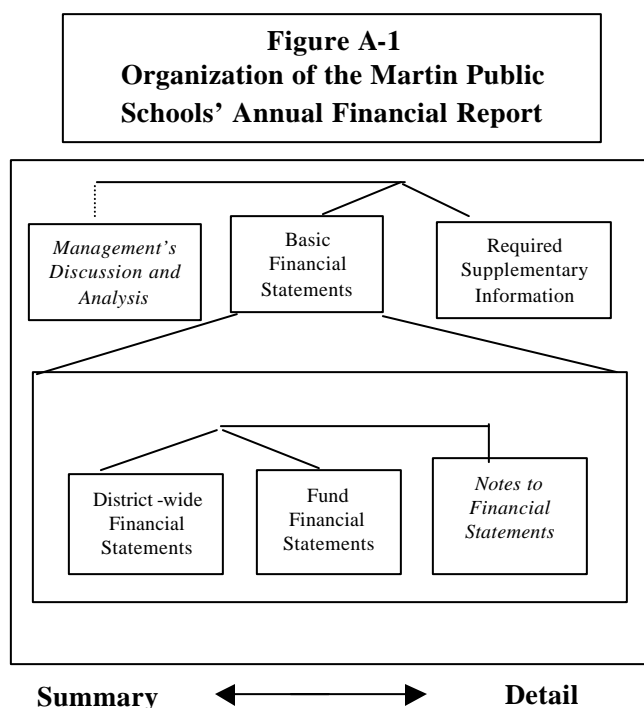
FINANCIAL HIGHLIGHTS

- Revenues decreased 5.2 percent to \$6.1 million mainly due to declining enrollment. Expenses decreased 40.3 percent to \$7.2 million due to the completion of the construction project.
- General Fund revenues were \$5.2 million, \$112,327 less than General Fund expenditures and transfers.
- State Aid was reduced mid-year by \$74 per student or 1.0%. State Aid dollars decreased by \$51,373.
- The District's fall student count fell to 690 pupils, a decrease of 48 students over last year.
- The total taxable value of property in the District increased 6.5 percent. The four-year average for taxable value increases remains strong at 7.5 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> * Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Martin's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – The District's combined net assets were slightly more on June 30, 2004 than the year before, increasing from \$1,196,684 to \$1,236,832.

Table A-3 Martin Public Schools Net Assets	
	2004
Current assets	\$ 1,853,711
Capital assets	8,099,741
Total assets	9,953,452
Long-term debt outstanding	6,963,351
Other liabilities	1,753,269
Total liabilities	8,716,620
Net assets	
Invested in capital assets, net of related debt	911,778
Restricted for debt service	234,096
Unrestricted	90,958
Total net assets	\$ 1,236,832

Table A-4 Changes in Martin Public Schools' Net Assets	
	2004
Revenues:	
Program revenues:	
Charges for services	\$ 167,798
Federal and state categorical grants	637,240
General revenues:	
Property taxes	999,157
Investment	4,652
State aid - unrestricted	4,099,161
ISD	106,881
Other	115,544
Total revenues	6,130,433
Expenses:	
Instruction	2,966,086
Support services	2,138,180
Food services:	183,916
Athletics	154,161
Interest on long-term debt	348,661
Unallocated depreciation	299,281
Total expenses	6,090,285
Change in net assets	\$ 40,148

District Governmental Activities

The District's good financial shape has come about through a number of areas.

- Proposal A established the student foundation grant concept, and has increased that amount from \$4,635.94 per student in 1995 to \$6,700 per student in 2004.
- Declining enrollment has been ongoing for the past 10 years. In the fiscal year 1999, state aid membership was 772.5 and in four years has decreased by 11.3% to 694.23.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balance of \$655,901 compared to \$1.7 million in 2003. Of the \$1.7 million in 2003, \$946,680 was the capital projects fund balance with the remaining total fund balance of \$779,171 for all other funds.

For fiscal year 2004, food service revenues were 1.3% greater than the yearly expenditures, leaving a fund balance of \$21,580. Indirect costs were not charged to the food service fund. Athletic expenditures were three times more than revenues. The general fund subsidized the athletic fund which enabled this fund to reach its expected balance of matching revenues to expenditures.

General Fund and Budget Highlights

During the 2004 fiscal year the original District budget was amended three times to reflect changes which affected the District.

The initial amendment took place in the fall once the student count had been determined.

Spring amendments took place to account for the unfavorable information coming from the state government regarding school financing. All programs and staff were maintained, only necessary expenditures were made to compensate for the decrease in funding from the state.

The final amended budget reflected the final state pro-rations of funds to school districts. Revenue was to be \$145,469 less than expenses. Final results showed that revenues came in slightly less (\$7,189) and expenditures came in less (\$34,943) as well. The net result was a change in fund balance of \$112,327 decreasing the fund balance to \$329,410.

General fund expenditures came within 1% of the budgeted amount. Overall the difference between the final District amended budget and the end of year figures amounted to less than 1%. In the final analysis, when compared to the Board adopted budget of June 2003, revenues were lower by less than ¾% and expenditures were within 2% of budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Martin Public School's Capital Assets			
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 25,000	\$	\$ 25,000
Buildings and improvements	9,493,822	2,135,924	7,357,898
Technology	625,088	509,500	115,588
Furniture and fixtures	500,790	135,415	365,375
Machinery and equipment	281,545	124,893	156,652
Transportation equipment	430,633	351,405	79,228
Total	<u>\$ 11,356,878</u>	<u>\$ 3,257,137</u>	<u>8,099,741</u>

Capital asset purchases throughout fiscal 2004 consisted primarily of completing at June 30, 2004 the capital projects fund.

LONG-TERM DEBT

At year-end the District had \$7,458,874 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$422,675.

Table A-6 Martin Public Schools Outstanding Long-Term Debt	
	<u>2004</u>
General obligation bonds	\$ 7,120,000
Durant - limited obligation bonds	44,616
Vehicle notes	23,347
Compensated absences	270,911
	<u>\$ 7,458,874</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of a few existing circumstances that could significantly affect its financial health in the future:

- While the 2004-2005 foundation allowance has been finalized by the State of Michigan, the weak state economy could require pro-rations in the state aid. The foundation allowance represents 85.5 percent of total District revenue.
- The end of fiscal year 2004 marked the expiration of monetary portions of the teacher's contract. There is no successor agreement.
- Student enrollment is uncertain.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Martin Public Schools, 1619 University Street, Martin, Michigan 49070.

**MARTIN PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 470,929
Investments	541,179
Receivables:	
Accounts receivable	38,949
Due from other governmental units	796,072
Taxes receivable	1,699
Inventories	4,883
TOTAL CURRENT ASSETS	1,853,711
NONCURRENT ASSETS:	
Capital assets	11,356,878
Less accumulated depreciation	(3,257,137)
TOTAL NONCURRENT ASSETS	8,099,741
TOTAL ASSETS	\$ 9,953,452
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 40,196
Note payable	625,000
Accrued salaries and related items	413,091
Accrued interest	64,672
Deferred revenue	114,787
Current portion of long-term debt	356,350
Current portion of voluntary severance plan	103,064
Current portion of compensated absences	36,109
TOTAL CURRENT LIABILITIES	1,753,269
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term debt	6,831,613
Noncurrent portion of voluntary severance plan	128,598
Noncurrent portion of compensated absences	3,140
TOTAL NONCURRENT LIABILITIES	6,963,351
TOTAL LIABILITIES	8,716,620
NET ASSETS:	
Invested in capital assets net of related debt	911,778
Restricted for debt service	234,096
Unrestricted	90,958
TOTAL NET ASSETS	1,236,832
TOTAL LIABILITIES AND NET ASSETS	\$ 9,953,452

See notes to financial statements.

**MARTIN PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 2,966,086	\$	\$ 514,395	\$ (2,451,691)
Support services	2,138,180		53,223	(2,084,957)
Food service	183,916	116,861	69,622	2,567
Athletics	154,161	50,937		(103,224)
Interest on long-term debt	348,661			(348,661)
Unallocated depreciation	299,281			(299,281)
Total governmental activities	<u>\$ 6,090,285</u>	<u>\$ 167,798</u>	<u>\$ 637,240</u>	(5,285,247)
General revenues:				
Property taxes, levied for general purposes				372,583
Property taxes, levied for debt service				626,574
Investment earnings				4,652
State sources				4,099,161
Allegan ISD allocation				106,881
Other				115,544
Total general revenues				<u>5,325,395</u>
CHANGE IN NET ASSETS				40,148
NET ASSETS, beginning of year				<u>1,196,684</u>
NET ASSETS, end of year				<u>\$ 1,236,832</u>

MARTIN PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General fund	1998 debt fund	2001 debt fund	Capital projects	Other nonmajor governmental funds	Total governmental funds
ASSETS						
ASSETS:						
Cash and cash equivalents	\$ 172,153	\$ 58,336	\$ 222,802	\$ 290	\$ 17,348	\$ 470,929
Investments	541,179					541,179
Receivables:						
Accounts receivable	38,949					38,949
Other governmental units	796,072					796,072
Due from other funds	7,349	219,554			12,445	239,348
Taxes	1,699					1,699
Inventories					4,883	4,883
TOTAL ASSETS	<u>\$ 1,557,401</u>	<u>\$ 277,890</u>	<u>\$ 222,802</u>	<u>\$ 290</u>	<u>\$ 34,676</u>	<u>\$ 2,093,059</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 40,196	\$	\$	\$	\$	\$ 40,196
Note payable	625,000					625,000
Accrued interest payable	3,037					3,037
Accrued salaries and related items	413,091					413,091
Deferred revenue	116,486					116,486
Due to other funds	30,181		204,961		4,206	239,348
TOTAL LIABILITIES	<u>1,227,991</u>		<u>204,961</u>		<u>4,206</u>	<u>1,437,158</u>

	General fund	1998 debt fund	2001 debt fund	Capital projects	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:						
Reserved for debt service	\$	\$ 277,890	\$ 17,841	\$	\$	\$ 295,731
Reserved for inventories					4,883	4,883
Designated for subsequent year's expenditures	11,419					11,419
Unreserved, undesignated	317,991			290	25,587	343,868
TOTAL FUND BALANCES	<u>329,410</u>	<u>277,890</u>	<u>17,841</u>	<u>290</u>	<u>30,470</u>	<u>655,901</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,557,401</u>	<u>\$ 277,890</u>	<u>\$ 222,802</u>	<u>\$ 290</u>	<u>\$ 34,676</u>	<u>\$ 2,093,059</u>

Total Governmental Fund Balances	\$ 655,901
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of the capital assets is	\$ 11,356,878
Accumulated depreciation is	<u>(3,257,137)</u>
	8,099,741
Long-term liabilities are not due and payable in the current period and are not reported in the funds	
Long-term debt	(7,187,963)
Voluntary severance plan	(231,662)
Compensated absences	(39,249)
Accrued interest is not included as a liability in government funds, it is recorded when paid	(61,635)
Balance of taxes receivable at 6/30/04 less allowance for doubtful accounts, collected after September 1, 2004	<u>1,699</u>
Net assets of governmental activities	<u>\$ 1,236,832</u>

MARTIN PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General fund	1998 debt fund	2001 debt fund	Capital projects	Other nonmajor governmental funds	Total governmental funds
REVENUES:						
Local sources:						
Property taxes	\$ 382,142	\$ 254,582	\$ 371,992	\$	\$	\$ 1,008,716
Investment earnings	1,972			2,680		4,652
Food sales and athletic admissions					167,798	167,798
Other	113,197	1,276	1,071			115,544
Total local sources	497,311	255,858	373,063	2,680	167,798	1,296,710
State sources	4,365,275				6,206	4,371,481
Federal sources	301,504				63,416	364,920
Intermediate sources	106,881					106,881
Total revenues	5,270,971	255,858	373,063	2,680	237,420	6,139,992
EXPENDITURES:						
Current:						
Instruction	3,071,602					3,071,602
Supporting services	2,207,202					2,207,202
Food service activities					183,916	183,916
Athletic activities					154,161	154,161
Debt service:						
Principal retirement		200,000	95,000			295,000
Interest and fiscal charges		88,769	260,222			348,991
Capital outlay				949,070		949,070
Total expenditures	5,278,804	288,769	355,222	949,070	338,077	7,209,942
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES						
	\$ (7,833)	\$ (32,911)	\$ 17,841	\$ (946,390)	\$ (100,657)	\$ (1,069,950)
OTHER FINANCING SOURCES (USES):						
Operating transfers from other funds					104,494	104,494
Operating transfers to other funds	(104,494)					(104,494)
Total other financing sources (uses)	(104,494)				104,494	
NET CHANGE IN FUND BALANCES	(112,327)	(32,911)	17,841	(946,390)	3,837	(1,069,950)
FUND BALANCES:						
Beginning of year	441,737	310,801		946,680	26,633	1,725,851
End of year	\$ 329,410	\$ 277,890	\$ 17,841	\$ 290	\$ 30,470	\$ 655,901

**MARTIN PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Net change in fund balances total governmental funds	\$ (1,069,950)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of

activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(299,281)
Capital outlay	995,933

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	61,965
Accrued interest payable end of the year	(61,635)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

317,159

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(11,258)
Deferred revenue end of the year	1,699

Compensated absences and voluntary severance plan are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	41,701
Accrued compensated absences end of the year	(39,249)
Accrued voluntary severance plan beginning of the year	334,726
Accrued voluntary severance plan end of the year	(231,662)

Change in net assets of governmental activities	\$ 40,148
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**MARTIN PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

	<u>Agency funds</u>
ASSETS	
Cash	<u>\$ 29,663</u>
LIABILITIES	
Liabilities:	
Due to student groups	<u>\$ 29,663</u>

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Martin Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Adoption of New Accounting Standards

During the fiscal period 2004, the District adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the District to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make certain changes to the footnotes.

The following table shows beginning net assets restated for the effects of implementation of GASB Statement No. 34:

Fund balance at June 30, 2003 - governmental funds	\$ 1,725,851
Long-term liabilities (restated)	(7,505,122)
Net capital assets (restated)	7,403,089
Accrued interest	(61,965)
Deferred revenue - property taxes	11,258
Compensated absences and severance benefits (restated)	<u>(376,427)</u>
Restated net assets - July 1, 2003	<u><u>\$ 1,196,684</u></u>

Opening compensated absences and severance benefits have been increased by \$334,726.

B. Reporting Entity

The Martin Public Schools (the "District") is governed by the Martin Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by GASB Statements No. 14 and 39.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and fund financial statements (Continued)

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district’s expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *1998 and 2001 debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures in the Martin Public Schools capital projects from the inception of the fund through the current fiscal year:

Revenue	<u>\$ 5,750,479</u>
Expenditures and transfers	<u><u>\$ 5,750,189</u></u>

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government-wide and fund financial statements (Concluded)

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on pupil membership counts taken in February and September of 2003.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2003 to August 2004. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

E. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2004, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.00
Debt Service Fund-Homestead and non-homestead	6.25

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$1,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

E. Other Accounting Policies (Concluded)

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2004. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

Cash and cash equivalents are held separately in the name of the District by each of the District's funds.

Deposits

At year-end, the carrying amount of the District's deposits were \$500,592 and the bank balance was \$720,922 of which \$200,000 was covered by federal depository insurance and \$520,922 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Statement of net assets	\$ 470,929
Statement of fiduciary net assets	<u>29,663</u>
	<u><u>\$ 500,592</u></u>

Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
3. Uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in the District's name.

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

At year end, the District's investment balances were as follows and this investment is not subject to investment categories of risk.

Category			Carrying amount
1	2	3	
\$	\$	\$	

Investments not subject to
categorization:

Guaranteed investment contract	\$ 541,179
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(The Guaranteed Investment Contract is set aside as a requirement of the Michigan Municipal Bond Authority State Aid note program.)

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 25,000	\$	\$	\$ 25,000
Total capital assets not being depreciated	<u>25,000</u>			<u>25,000</u>
Capital assets, being depreciated:				
Buildings and improvements	8,723,584	770,238		9,493,822
Technology	595,763	29,325		625,088
Furniture and fixtures	385,320	115,470		500,790
Machinery and equipment	200,645	80,900		281,545
Transportation equipment	<u>512,827</u>		<u>82,194</u>	<u>430,633</u>
Total capital assets, being depreciated	<u>10,418,139</u>	<u>995,933</u>	<u>82,194</u>	<u>11,331,878</u>
Accumulated depreciation:				
Buildings and improvements	1,977,921	158,003		2,135,924
Technology	436,159	73,341		509,500
Furniture and fixtures	118,145	17,270		135,415
Machinery and equipment	117,660	7,233		124,893
Transportation equipment	<u>390,165</u>	<u>43,434</u>	<u>82,194</u>	<u>351,405</u>
Total accumulated depreciation	<u>3,040,050</u>	<u>299,281</u>	<u>82,194</u>	<u>3,257,137</u>
Net capital assets being depreciated	<u>7,378,089</u>	<u>696,652</u>	<u>-</u>	<u>8,074,741</u>
Net governmental capital assets	<u>\$ 7,403,089</u>	<u>\$ 696,652</u>	<u>\$ -</u>	<u>\$ 8,099,741</u>

Depreciation for the fiscal year ended June 30, 2004 amounted to \$299,281. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions. During the current year reclassifications were made to the beginning capital asset groups .

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTE PAYABLE

At June 30, 2004, the District has a note payable outstanding of \$625,000. The note has an interest rate of 1.02% and matures July 21, 2004. The District has \$541,179 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$625,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2003	Additions	Payments	Balance June 30, 2004
<u>\$ 525,000</u>	<u>\$ 625,000</u>	<u>\$ 525,000</u>	<u>\$ 625,000</u>

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. At June 30, 2004 the District has no general obligation bonds outstanding. Long-term obligations currently outstanding are as follows:

1998 refunding bonds due in annual installments of \$210,000 to \$260,000 through May 1, 2011 with interest from 4.45% to 4.75%	\$ 1,670,000
2001 school building and site bonds due in annual installments of \$135,000 to \$275,000 through May 1, 2027 with interest of 5.00%	5,450,000
Limited obligation (Durant) bond, due in installments of \$3,540 to \$15,993 through May 15, 2013, with interest of 4.76%. Certain future state aid payments have been pledged as security.	<u>44,616</u>
Total bonded debt	7,164,616
Loans for the purchase of school buses due in annual installments of \$11,350 to \$11,997 with interest of 5.69%	<u>23,347</u>
	7,187,963
Compensated absences and severance benefits	<u>270,911</u>
Total general long-term debt	<u>\$ 7,458,874</u>

Interest expense (all funds) for the year ended June 30, 2004 was \$348,149.

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Continued)

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to amortize long-term debt outstanding as of June 30, 2004, including interest of \$3,763,034, are as follows:

Year ending June 30,	Principal	Interest	Total
2005	\$ 356,350	\$ 334,440	\$ 690,790
2006	412,990	326,573	739,563
2007	408,540	302,628	711,168
2008	433,710	284,645	718,355
2009	453,887	265,567	719,454
2010 - 2014	1,727,486	1,040,430	2,767,916
2015 - 2019	1,250,000	718,751	1,968,751
2020 - 2024	1,320,000	407,500	1,727,500
2025 - 2027	825,000	82,500	907,500
Total	7,187,963	<u>\$ 3,763,034</u>	<u>\$ 10,950,997</u>
Severance plan	231,662		
Accumulated compensated absences	<u>39,249</u>		
	<u>\$ 7,458,874</u>		

At June 30, 2004, \$295,731 is available in the debt service funds to service the general obligation debt.

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term obligations for the District for the year ended June 30, 2004:

	General obligations Bonds	Limited obligation durant bonds	Nonbonded Debt	Compensated absences and severance benefits	Total
Balance, July 1, 2003	\$ 7,415,000	\$ 44,616	\$ 45,506	\$ 376,427	\$ 7,881,549
Additions					-
Deletions	<u>295,000</u>	<u></u>	<u>22,159</u>	<u>105,516</u>	<u>422,675</u>
Balance, June 30, 2004	7,120,000	44,616	23,347	270,911	7,458,874
Less current portion	<u>345,000</u>	<u></u>	<u>11,350</u>	<u>139,173</u>	<u>495,523</u>
Total due after one year	<u>\$ 6,775,000</u>	<u>\$ 44,616</u>	<u>\$ 11,997</u>	<u>\$ 131,738</u>	<u>\$ 6,963,351</u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2004 are as follows:

Receivable Fund		Payable Fund	
General	\$ 7,349	General	\$ 30,181
Special revenue	12,445	Special revenue	4,206
Debt service	<u>219,554</u>	Debt service	<u>204,961</u>
	<u>\$ 239,348</u>		<u>\$ 239,348</u>

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the twelve member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2004 was 12.99%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2004, 2003 and 2002 were approximately \$405,107, \$437,587 and \$413,587, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

MARTIN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. No settlements have occurred in excess of coverage for June 30, 2004.

NOTE 10 - TRANSFERS

The general fund transferred \$104,494 to the athletic fund during the current fiscal year to balance the athletic fund budget.

REQUIRED SUPPLEMENTARY INFORMATION

MARTIN PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISION SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2004

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local	\$ 381,375	\$ 495,122	\$ 497,311	\$ 2,189
State sources	4,544,758	4,371,809	4,365,275	(6,534)
Federal sources	316,592	304,348	301,504	(2,844)
Incoming transfers and other transactions	64,650	106,881	106,881	
Total revenues	5,307,375	5,278,160	5,270,971	(7,189)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	2,383,100	2,411,607	2,426,668	(15,061)
Added needs	767,418	655,083	644,934	10,149
Total instruction	3,150,518	3,066,690	3,071,602	(4,912)
Support services:				
Pupil	238,688	248,128	245,276	2,852
Instructional staff	173,558	233,461	224,159	9,302
General administration	415,690	343,904	337,166	6,738
School administration	407,400	355,512	345,693	9,819
Business	90,500	239,765	242,694	(2,929)
Operation and maintenance services	478,012	584,376	579,807	4,569
Transportation	219,990	232,011	222,792	9,219
Other supporting services		9,900	9,615	285
Total support services	2,023,838	2,247,057	2,207,202	39,855
Total expenditures	\$ 5,174,356	\$ 5,313,747	\$ 5,278,804	\$ 34,943
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	133,019	(35,587)	(7,833)	27,754
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(132,545)	(109,882)	(104,494)	5,388
NET CHANGE IN FUND BALANCE	\$ 474	\$ (145,469)	(112,327)	\$ 33,142
FUND BALANCE:				
Beginning of year			441,737	
End of year			\$ 329,410	

ADDITIONAL INFORMATION

**MARTIN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	School lunch fund	Athletics fund	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 13,283	\$ 4,065	\$ 17,348
Inventory - food service	4,883		4,883
Due from general fund	<u>6,395</u>	<u>6,050</u>	<u>12,445</u>
Total assets	<u><u>\$ 24,561</u></u>	<u><u>\$ 10,115</u></u>	<u><u>\$ 34,676</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to general fund	<u>\$ 2,981</u>	<u>\$ 1,225</u>	<u>\$ 4,206</u>
Fund balances:			
Reserved for:			
Inventories	4,883		4,883
Unrestricted:			
Undesignated	<u>16,697</u>	<u>8,890</u>	<u>25,587</u>
Total fund balances	<u>21,580</u>	<u>8,890</u>	<u>30,470</u>
Total liabilities and fund balances	<u><u>\$ 24,561</u></u>	<u><u>\$ 10,115</u></u>	<u><u>\$ 30,470</u></u>

**MARTIN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2004**

	School lunch fund	Athletics fund	Totals
REVENUES:			
Sale of lunches and milk	\$ 116,861	\$	\$ 116,861
Federal aid	63,416		63,416
State aid	6,206		6,206
Athletic events		50,937	50,937
	<hr/>	<hr/>	<hr/>
Total revenues	186,483	50,937	237,420
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries and wages	68,028	76,112	144,140
Employee benefits	22,591	8,171	30,762
Supplies and other expenses	47,848	69,878	117,726
Food costs	44,976		44,976
Indirect costs	473		473
	<hr/>	<hr/>	<hr/>
Total expenditures	183,916	154,161	338,077
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,567	(103,224)	(100,657)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES:			
Operating transfer in from general fund		104,494	104,494
	<hr/>	<hr/>	<hr/>
NET CHANGES IN FUND BALANCES	2,567	1,270	3,837
	<hr/>	<hr/>	<hr/>
FUND BALANCES, beginning of year	19,013	7,620	26,633
	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<u>\$ 21,580</u>	<u>\$ 8,890</u>	<u>\$ 30,470</u>

**MARTIN PUBLIC SCHOOLS
AGENCY FUND
STUDENT ACTIVITIES FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2004**

	Balance			Balance
	July 1, 2003	Additions	Deductions	June 30, 2004
Band	\$ 405	\$ 8,863	\$ 5,117	\$ 4,151
Home Economics	11	364	373	2
Science Department F/R	431	624	1,214	(159)
Advanced Biology	899			899
Drama	286	1		287
Tag grant	302	24	351	(25)
Spanish club	1,133	13	65	1,081
Class of 2003	314		314	
Class of 2004	2,201	707	1,991	917
Class of 2005	999	13,311	11,153	3,157
Class of 2006	900	2,883	2,308	1,475
Class of 2007	50	1,651	861	840
Junior High Senate	733	823	1,250	306
Student Senate	1,749	11,578	12,335	992
Shop	(1,213)	11,620	16,188	(5,781)
Revolving textbook	6,267	1,172	199	7,240
Revolving other	(161)	238	77	
Yearbook Clipper	4,603	10,361	13,838	1,126
Clipper Log	87			87
Junior High Society	(154)	167		13
Pals	467		330	137
Building fund - High School	1,376	1,284	1,617	1,043
Target Education Fund	641	344		985
Mini-Society -Careers	220	168	445	(57)
Middle school end of year	2,363	11,932	12,263	2,032
Field trips	508	3,153	2,378	1,283
Popcorn machine	(47)	200		153
8th grade trip	35	1,274	3,842	(2,533)
Fundraiser account	427	11,097	11,052	472
Robert D. Brandon Elementary	8,463	30,070	28,993	9,540
Totals	<u>\$ 34,295</u>	<u>\$ 123,922</u>	<u>\$ 128,554</u>	<u>\$ 29,663</u>

**MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2004**

\$2,655,000 Bond Issued January 1, 1998

<u>Principal due May 1,</u>	<u>Interest due May 1,</u>	<u>Interest due November 1,</u>	<u>June 30,</u>	<u>Amount</u>
\$ 210,000	\$ 38,413	\$ 38,413	2005	\$ 286,826
220,000	33,740	33,740	2006	287,480
230,000	28,790	28,790	2007	287,580
240,000	23,558	23,558	2008	287,116
250,000	18,097	18,097	2009	286,194
260,000	12,285	12,285	2010	284,570
<u>260,000</u>	<u>6,175</u>	<u>6,175</u>	2011	<u>272,350</u>
<u><u>\$ 1,670,000</u></u>	<u><u>\$ 161,058</u></u>	<u><u>\$ 161,058</u></u>		<u><u>\$ 1,992,116</u></u>

Above bonds dated January 1, 1998 were issued for the purpose of constructing and remodeling school facilities. Interest varies from 4.35% to 4.75%.

**MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2004**

\$5,590,000 Bond Issued August 1, 2001

<u>Principal due May 1,</u>	<u>Interest due May 1,</u>	<u>Interest due November 1,</u>	<u>June 30,</u>	<u>Amount</u>
\$ 135,000	\$ 128,143	\$ 128,142	2005	\$ 391,285
165,000	125,308	125,307	2006	415,615
175,000	121,843	121,842	2007	418,685
190,000	118,168	118,167	2008	426,335
200,000	114,178	114,177	2009	428,355
215,000	109,978	109,977	2010	434,955
225,000	105,463	105,462	2011	435,925
250,000	100,625	100,625	2012	451,250
250,000	95,125	95,125	2013	440,250
250,000	89,500	89,500	2014	429,000
250,000	83,750	83,750	2015	417,500
250,000	77,875	77,875	2016	405,750
250,000	71,938	71,937	2017	393,875
250,000	65,938	65,938	2018	381,876
250,000	59,875	59,875	2019	369,750
250,000	53,625	53,625	2020	357,250
255,000	47,375	47,375	2021	349,750
270,000	41,000	41,000	2022	352,000
270,000	34,250	34,250	2023	338,500
275,000	27,500	27,500	2024	330,000
275,000	20,625	20,625	2025	316,250
275,000	13,750	13,750	2026	302,500
275,000	6,875	6,875	2027	288,750
<u>\$ 5,450,000</u>	<u>\$ 1,712,707</u>	<u>\$ 1,712,699</u>		<u>\$ 8,875,406</u>

Above bonds dated August 1, 2001 were issued for the purpose of constructing and remodeling school facilities. Interest varies from 5.0%

**MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2004**

\$69,835 School Improvement Bonds (Durant) - Limited Obligation Bonds

Principal due May 1,	Interest payment	May 15,	Amount
\$ -	\$ -	2005	\$ -
15,993	7,150	2006	23,143
3,540	1,363	2007	4,903
3,710	1,194	2008	4,904
3,887	1,018	2009	4,905
4,072	833	2010	4,905
4,265	638	2011	4,903
4,468	436	2012	4,904
4,681	223	2013	4,904
<u>\$ 44,616</u>	<u>\$ 12,855</u>		<u>\$ 57,471</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**MARTIN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2004**

\$300,789 School Bus purchases

Year ending June 30,	Principal	Interest
<hr/>	<hr/>	<hr/>
2005	\$ 11,350	\$ 1,329
2006	11,997	1,328
	<hr/>	<hr/>
	\$ 23,347	\$ 2,657
	<hr/>	<hr/>

Interest rate of 5.69%.



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Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nysquist
James R. Desync

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Martin Public Schools
Martin, Michigan

August 31, 2004

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Martin Public Schools as of and for the year ended June 30, 2004, which collectively comprise Martin Public Schools' basic financial statements and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Martin Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martin Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Martin Public Schools in a separate letter dated August 31, 2004.

To the Board of Education
Martin Public Schools
Martin, Michigan

August 31, 2004

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costeniser & Ellis, P.C.

Certified Public Accountants



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Leon A. Ellis (1953-1988)

August 31, 2004

To the Board of Education
Martin Public Schools
Martin, Michigan

In planning and performing our audit of the financial statements of Martin Public Schools for the year ended June 30, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 31, 2004, on the financial statements of Martin Public Schools.

Registration fees to play sports

A roster of players who registered to participate in sports should be kept to reconcile the number of players registered with the amount of revenue received from payments each season.

Government Accounting Standards Board (GASB) Statement #40 “Deposit and Investment Risk Disclosure”

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposit and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a government entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The District should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Financial Information Database (FID) Filing

The Center for Educational Performance and Information (CEPI) is preparing for the implementation of a new upload application/database for financial reporting for school districts in Michigan. This new application/database is called the Financial Information Database (FID). This submission is due November 15, 2004. The EDN/Form B submission process has been eliminated and is no longer available. We strongly recommend your filing be done earlier this year to ensure all changes have been accepted. The penalty for late filing is withholding of your state aid by the State of Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Martin Public Schools
Martin, Michigan

3

August 31, 2004

This report is intended solely for the information and use of Martin Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours

Mamie Costeniser & Ellis, P.C.



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August 31, 2004

To the Finance Committee
Martin Public Schools
Martin, Michigan

We have audited the financial statements of Martin Public Schools for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Audit Standards

As stated in our engagement letter dated June 7, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Martin Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Martin Public Schools' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Martin Public Schools are described in Note 1 to the financial statements. During 2004, the District adopted the new governmental reporting model as required by Governmental Accounting Standard Board (GASB) Statement No. 34. We noted no transactions entered into by Martin Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Estimates have been used in calculating the liability for employee compensated absences. At June 30, 2004 the balance reported was approximately \$40,000. Certain amounts included in capital assets have been based on an outside appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Martin Public Schools financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Martin Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Martin Public Schools financial reporting process. All proposed adjustments have been recorded.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Martin Public Schools auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service and would be happy to discuss the foregoing items at your convenience.

Very truly yours,

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.